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C O N F I D E N T I A L SECTION 01 OF 02 HONG KONG 000937

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STATE FOR EAP/CM

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TAGS: ECON EFIN EINV ETRD PGOV MO HK CH
SUBJECT: MGM'S "UNSUITABLE" JOINT VENTURE PARTNER IN MACAU

REF: A. HONG KONG 350
¶B. HONG KONG 166
¶C. 08 HONG KONG 1962

Classified By: Consul General Joe Donovan, reasons 1.4 (b) and (d)

¶1. (U) Summary: The New Jersey Division of Gaming Enforcement (DGE) has designated MGM Mirage's 50/50 joint venture partner in Macau, Pansy Ho, an "unsuitable" business partner for MGM. The DGE has recommended that MGM sever its business association with Pansy Ho, based on her substantial business dealings with her father, Macau gaming billionaire Stanley Ho. A senior MGM executive told us on May 20 that the DGE likely concluded that Stanley Ho is affiliated with organized crime leaders and activities. The confidential report was delivered to the DGE's oversight body - the NJ Casino Control Commission (CCC) - on May 18. The CCC is likely to hold a public hearing to discuss the DGE's report and its conclusions (timing of that hearing not yet disclosed). Should the CCC accept the DGE's recommendations, MGM would be forced to either divest its stake in MGM Macau, or exit the NJ gaming market (via the forced sale of its 50 percent ownership of the Borgata Hotel/Casino in Atlantic City). End summary.

¶2. (C) Comment: The New Jersey DGE's conclusions stand in contrast to the acceptance of Pansy Ho by other states in which MGM owns or operates casinos - i.e., Nevada, Mississippi, Michigan and Illinois. An open discussion in the United States of the GOM's regulatory shortcomings could prompt the GOM to update and tighten its statutory and regulatory gaming frameworks, and generate lasting benefits in the form of better casino oversight by the GOM. A tighter regulatory environment in Macau would likely provide strategic competitive benefits to the U.S. casino companies, given the relative "cleanliness" of their operations, and their proven ability to comply with strict government oversight in a cost-effective manner.

Background

¶3. (U) Las Vegas-based publicly traded companies MGM and Boyd Gaming Corporation each own 50 percent of the Borgata Hotel/Casino in Atlantic City (opened in 2003 at cost of USD 1.1 billion). In June 2005, as part of Borgata's application to renew its New Jersey gaming license, the NJ Division of Gaming Enforcement (DGE) initiated an investigation into MGM's then-planned 50/50 joint venture in Macau with Pansy Ho, daughter of local gaming billionaire Stanley Ho. MGM's joint venture with Pansy Ho - the USD 1.2 billion MGM Macau Hotel/Casino - commenced operations in 2007. Meanwhile, New Jersey's DGE investigation continued. (Note: MGM's

relationship with Pansy Ho has been reviewed and approved by gaming regulatory bodies in Nevada, Mississippi, Michigan and Illinois (i.e. states where MGM owns or operates casinos). The other two Las Vegas-based corporations with casino operations in Macau - i.e., Las Vegas Sands and Wynn Resorts - have neither material gaming investments in New Jersey nor ownership stakes in casinos owned by Ho family members. They do not fall under the jurisdiction of NJ gaming authorities.)

¶4. (U) The Borgata recorded revenues and net income of USD 1.04 billion and USD 83 million, respectively, in 2008. MGM Macau's 2008 revenues were USD1.16 billion, but the operation posted a net loss of USD32 million.

Frontal Attack on Pansy Ho as Gaming Partner

¶5. (U) On May 18, 2009 the DGE summarized the results of its nearly four-year investigation in a report to its oversight body, the NJ Casino Control Commission (CCC). MGM announced the DGE's conclusions to investors on May 19, pursuant to disclosure requirements of the U.S. Securities and Exchange Commission. The body of the DGE's confidential report has not yet been released to the public. According to media reports, the CCC has the authority to accept or reject any or all of the DGE's recommendations. The DGE's report recommends to the CCC that: 1) Pansy Ho be designated as an "unsuitable" joint venture partner for MGM in Macau; 2) MGM be directed by the CCC to sever any business association with Pansy Ho; 3) MGM's due diligence and regulatory compliance

efforts be found deficient; and 4) the CCC should hold a hearing to address the report. The CCC is expected to hold a public hearing as part of its assessment of the DGE report; the timing of that hearing has not yet been determined. If the CCC finds that Pansy Ho is an unsuitable partner, MGM would be forced to sell its stake in either MGM Macau (thereby eliminating its partnership with Pansy Ho) or the Borgata (thereby removing MGM from NJ's gaming jurisdiction).

MGM Executive Defends Pansy Ho

¶6. (C) MGM Macau President Grant Bowie (protect) told EconOff on May 20 in Macau that the DGE report will likely link Stanley Ho with organized crime figures and activities. The report concludes that Pansy Ho has received substantial financial and corporate management support from her father and his gaming conglomerate. Through cross shareholdings and other business connections that are likely detailed in the DGE's May 18 report, Pansy Ho's business dealings with her father were deemed material enough to classify her as an unsuitable partner for MGM. Bowie said, "We didn't expect the harshness of the report's conclusions. We'll obviously need time to look at the analytical details they used to justify their recommendations." According to Bowie, DGE investigators visited Macau "several times" during their probe and received little cooperation from Macau's equivalent regulatory body, the Gaming Inspection and Coordination Bureau (known by its Portuguese acronym "DICJ"). He said, "The DGE kept asking detailed questions, but the DICJ never responded."

¶7. (C) Bowie defended Pansy Ho during our discussion. He said, "Pansy knows where the edge of legality is for our casino operations, and she helps keep us away from there. We lose business because of it." He said the report unfairly criticizes Pansy Ho "for the sins of her father." For the past several months, as part of its asset divestiture plans, MGM has sought to divest all or part of its 50 percent share of MGM Macau. Bowie felt the report could diminish the attractiveness of MGM's investment in Macau, as potential investors may "become shy" about partnering with Pansy Ho. A

formal CCC finding of Pansy Ho's unsuitability could trigger "forced sale" clauses in MGM Macau's joint venture agreement. This would give Pansy Ho the right of first refusal on MGM's share of the property, once MGM negotiates a transaction price with a third party.

Ho Family and Associates Wait to Respond

¶8. (C) Stanley Ho's company SJM Holdings owns 19 of Macau's 31 casinos. Ambrose So, Stanley Ho's right-hand-man and the CEO of SJM Holdings, told EconOff on May 21 that the DGE report "has nothing to do with SJM." He refused to comment about the report's conclusions, saying, "It's really for Pansy to address. She'll look at it and respond at an appropriate time." As of May 21, neither Stanley Ho nor his daughter had publicly responded to the report's conclusions. Pansy Ho issued a brief statement saying she would "need time to read and consider the contents of the report."
DONOVAN